LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

It's tough to make predictions, especially about the future.
– Yogi Berra

Don't Predict. Prepare.

Is the stock market a good barometer for the general economy and, if so, does the recent decline in the stock market mean we are headed for a recession? The answer is…not necessarily.

Many people assume that significant declines in in the market automatically coincide with a recession. According to Wharton Professor Jeremy Siegel, author of *Stocks for the Long Run*, since World War II there have been fourteen instances where the Dow Jones Industrial Average (DJIA) fell at least 10% without the economy experiencing a recession. In other words, sometimes we experience temporary stock corrections that do not lead to a decline in the economy. Unfortunately, it also means that even in good economic times the stock market can fall without warning.

What if this time we are headed for a recession? The financial media spends a lot of time talking about timing the market and calling the next crash or crisis. They seem to suggest that—*if only you could predict the next recession, you could time the stock market.* This is a myth. Just as a stock market decline does not guarantee a recession, a recession does not guarantee a stock market decline. Since 1929, the United States has experienced fourteen recessions, and in seven of them, the stock market went up. Furthermore, in eleven of our fourteen recessions, stocks provided a positive total return one year later (fourteen for fourteen if you extend to three and five years later).

Recessions are quite common. Since 1928, the U.S. economy has been in a recession 20% of the time—or on average—one out of every five years. Somehow every time we're in the midst of an economic expansion, it's easy to forget that recessions are a natural outcome in the ebb and flow of the business cycle. More importantly, history has shown that even when recessions do occur, investors who stayed the course have enjoyed (on average) a total cumulative return of 20.7% one year later, 52.6% three years later, and 85.8% five years later.

At Lawson Kroeker, rather than try to **predict** the next recession or bear market, we **prepare** for the inevitable by making investment decisions with the assumption that corrections and recessions are always just around the corner. This instills prudence and a desire to be selective with the quality of the companies we own and the prices we are willing to pay. Instead of blindly buying a piece of every company in the market (such as an index fund), we diligently search for *all-weather* companies that in our judgement, can withstand various economic conditions and multiple cycles. Furthermore, we build portfolios with a dose of humility by reminding ourselves—*what if we're wrong?* Even though we believe in owning a select number of companies, we aim to reduce risk by diversifying into multiple sectors of the economy and incorporating other asset classes such as real estate, bonds, and cash.

In conclusion—when lengthening one's time horizon—recessions are not as scary as they sound, especially in hindsight. The stock market and the general economy operate in two distinct cycles. At times they move in tandem and at times they march to their own beat. Trying to predict either cycle is like to trying to predict the weather—about half the time, you might be right. A better approach is to prepare for the occasional rainy day and remember—*this too shall pass*.

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